
A Proposal for Mutuality Among Financial Centres

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One of the big themes that a number of financial centres tout, including the City of London, is that finance is not a “zero sum game” or mutuality among centres. Z/Yen finds this thinking a bit simplistic, but not wrong. Financial centres certainly do compete. If one centre gets a financial institution’s jobs, that’s fewer jobs for other centres.

Yet financial centres do believe that mutuality is important. Financial centres have the ability to influence financial regulation through a number of mechanisms ranging from promotion, to fostering government-industry dialogue, to encouraging greater coherence in national rules and regulations. They invest significant amounts of economic development resources in cooperation on regulation, lobbying and connecting financial services firms. We contend that these centres are united by a common enemy – other ways of organising society.

Society has a number of mechanisms for resource creation and distribution, ranging from command-and-control to government planning, taxation or direct subsidy. Financial markets believe that they are among the best means by which people funnel investment toward innovation and growth. One example of this competition between financial centres and other mechanisms might be the pre-1997 Kyoto protocol debates between cap-and-trade (an open market solution) and taxation or regulation. In that case, the open market solution was the preferred option, though has yet to deliver.

After the financial crises since 2007, alternative mechanisms are resurgent, market mechanisms suspect. Vibrant and competitive financial markets endow financial centres with tremendous economic advantages. Post crises, the public questions these advantages and whether these arrangements need a serious rethink. Meanwhile, the quality of financial services regulation increasingly affects the success of cities as financial centres. Recent studies reinforce the importance to financial service firms of regulatory policy, implementation, supervision and enforcement when it comes to assessing the attractiveness of a financial centre as a business location. Changes in employment, exchange listings and trading patterns appear to indicate that financial services firms are starting to reallocate business activities, if not their physical location, based on decisions about differential regulatory measures and costs.

The foe is not regulation, but other ways for society to organise itself. Potential titles include: “All For All? Cooperation and Competition Among Financial Centres”, “Cluster of Clusters – Why Financial Centres Need to Cooperate”, “Financial Centres – The Foe Is Not Regulation, But Non-market Solutions”, “Mutualité, Fraternité, Another Day”.

Next Steps

This note is designed to initiate conversation. Z/Yen is interested in exploring these issues further with all parties. Please contact Michael Mainelli, Director, Z/Yen Group Limited, Michael_Mainelli@zyen.com